



MOONLIGHT TOBACCO COMPANY

## OVERVIEW

OVE SORENSEN  
November 9, 1995

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## Market Overview

- Current market is 485 billion sticks, of which full price brands equal 67%.
- In the past 3 years, independent manufacturers have managed to take on estimated 3-5% of the market, worth approximately \$300-\$500MM.
  - Star Tobacco
    - Gunsmoke
    - Miami Lights
  - Sante Fe Tobacco
    - American Spirit
  - Japan Tobacco
    - Wave
  - Commonwealth
    - USA Gold
    - Reno
  - USA Tobacco
    - USA
  - House of Samporena
    - Rave
- At this point in time, the majority of the products marketed by this segment are in the lower price tier. Exceptions like American Spirit, Free Spirit and Buz have begun to show up in the marketplace.
- RJR has responded successfully to the lowest price segment via Forsyth Tobacco.
- Opportunity exists for RJR to create a presence in the Full Price nitch-brand segment via micro-marketing before independent manufacturers expand upwards.

## Objective

1. Provide increased revenue from a growing segment of the market that we are not participating in.
  - Introduce 3-5 new brand ideas each year. *7 Brands Now*
  - Within 2 years, build an operating unit contributing \$10-20MM to bottom line.
2. Provide key marketing learning for the future by working within a more limited, self-imposed marketing environment.
  - Emphasizing primarily Packaging, POS, and PR.
3. Provide a laboratory of new ideas for the future.
  - Potential new brands for the 21st century.
4. Provide a means in which to speed the integration of RJRT and RJRTI by aggressively pursuing ideas from outside markets and by sharing new brands/trademarks with TI.

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## Strategy

1. Establish a small, entrepreneurial "renegade" team. This team will be empowered to work outside the BU system to generate new full price brand concepts and execute them in the market.

Current Culture → Process/tactically driven

New Culture → Idea/implementation driven

2. Minimize increase in infrastructure by working ad hoc with alliances in other departments. Cross functional flexibility will be critical to financial success of entity.
3. Use our best, existing product blends for new brands to insure product quality, minimize R&D overhead, and capitalize on manufacturing efficiencies.

## Brand Positionings

Image: Each brand must communicate its image via packaging.

- Must be visually compelling.
- Image must tie to product's unique selling proposition.
- Intensity of consumer response -- not breath of acceptance -- is the measure.

Product: Each brand must have a clearly defined/differentiated product positioning ....

- Product blend: e.g., Additive Free, Honey Toasted, etc.  
or
- Visual design: e.g., Wides, Granite Colored Filter, etc.

While delivering a smooth, easy to smoke product.

- Utilize best, competitively accepted product blends: e.g., Select FF, Select Lights, SALEM Gold.

**MOONLIGHT TOBACCO COMPANY  
LONG-TERM SHARE/EARNINGS POTENTIAL  
DOLLARS IN THOUSANDS**

	HIGH SCENARIO	LOW SCENARIO
Total Retail Calls (Key, A & B)	136,000	136,000
Sell-in Coverage @ 25%	34,000	34,000
Volume (MM Units): @ 6 Ctns. / Week	2,121.6	
@ 3 Ctns. / Week		1,060.8
Variable Margin @ \$33/M	\$70,013	\$35,006
Less Distributor Incentive - (\$1/Ctn.)	(\$10,608)	(\$5,304)
Less Marketing Expenses:		
Packaging Development	\$500	
POS/Display Pmts.	\$650	
Permanent Displays	\$500	
Field Marketing/Promotion	\$1,000	
Advertising/Production	\$2,500	
Agency/PR Fees/Other	\$750	
Total Marketing Spending	(\$5,900)	(\$5,900)
Net Margin After Marketing	\$53,505	\$23,802
MAM / M	\$25.22	\$22.44
NOTE: Incremental MAM net of Cannibalization:		
@ 10% Cannibalization	\$46,504	\$20,302
@ 20% Cannibalization	\$39,502	\$16,801
@ 30% Cannibalization	\$32,501	\$13,300

### Test Market Status

- Launched in three markets:
  - Chicago 8/28
  - New York 9/11
  - Seattle 9/25
- Distribution is on track:
  - Chicago 250 - 275 stores
  - New York 250 - 275 stores
  - Seattle 225 - 250 stores
- Product sales appear to be positive in all stores -
  - Sedona, Bee's and Jumbo's moving fastest.
  - Must manage out-of-stocks via increased wholesaler distribution and car stock.
- Sales/volume will be tracked via:
  - Marlin stores within Moonlight Distribution - 10 to date
    - 6 Super Marker
    - 1 Drug Store
    - 2 Tobacco News
    - 1 Cigarette Outlet
  - First read - November data early January
  - AIM Data (wholesaler shipments)
    - First read - November brand data early January
  - Independent store audits if necessary
- Consumer purchasing dynamics/source of business will be explored via phone questionnaire.
  - Results due mid-December

## Competitive Response

- While it is too early to determine projectable volumes for individual brands or for Moonlight as a whole, all signs are good. The Micro-Brewery concept seems strong. We can only assume that Philip Morris is hearing the same thing from their consumers, and possibly investors, as it relates to Moonlight Tobacco.
- We believe PM's response could take shape in several different ways and in different geography.
  - 1) Current Markets:
    - Instruct Reps to pull down Moonlight POS and force displays out of stores they control, based on RDA contracts.
    - Minimize additional retail expansion within markets via retailer scare tactics and additional payments.
  - 2) Outside Markets:
    - Pre-empt Moonlight in expansion markets by:
      - Quickly expanding "Dave's" nationally to eat-up retail space and thereby limiting retailer's willingness to try another "micro" concept.
      - Use "Dave's" expansion to buy time to fully develop their own full price micro concept.
  - 3) International Markets:
    - PM is well situated to pre-empt Moonlight Internationally, based on our current state of structural changes.



## RJR/Moonlight Response

- Current markets:
  - Continue to expand store count within current markets.
  - Ensure that retail materials exist in large enough quantities within the current markets to respond quickly to any competitive activity.
  - RJR field sales will help in monitoring/maintaining Moonlight distribution.
  - Working with wholesalers, including expanding wholesaler list, to manage out-of-stocks.
  - Monitor individual brand performance to determine if brands are viable or need replacement.
- Expansion Markets:
  - Producing 4M display kits to be prepared for expansion - whether pre-emptively or defensively - at a later date.
  - Consider expanding, on a micro basis, to 6-8 additional markets. This would pre-emptively establish Micro-Brewery concept via Moonlight Tobacco in key trend setting markets.

Miami	Denver
Atlanta	Cleveland
Boston	Minneapolis
Dallas	San Francisco

Exact timing could be flexible by market, based on Regional Manager's plan. Immediate expansion to Atlanta and Miami, however, should be considered based on the timing of the Olympics and the Florida tourist season.

- Developing a Menthol brand for Moonlight to strengthen product line competitively. Chicago will take as soon as possible.
- International Markets:
  - RJRTI has expressed interest for West Germany, Holland and other established markets. Japan may be ideal for packaging driven concept as well.
  - Per J. Johnston request, will present to TI Regional Presidents on 11/10.